

November 18, 2003

The Honorable J. Dennis Hastert
Speaker
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

In accordance with section 2104(a)(1) of the Trade Act of 2002 (the Trade Act), and pursuant to authority delegated to me by the President, I am pleased to notify the Congress that the President intends to initiate free trade agreement (FTA) negotiations with the Republic of Panama. We expect to launch negotiations during the second quarter of 2004. We will be consulting closely with the Congress over the next 90 days regarding these negotiations, as required by the Trade Act.

The Administration is committed to bringing back trade agreements that open markets to benefit our farmers, workers, businesses, and families. With the Congress' continued help, we can move promptly to advance America's trade and economic interests.

The United States has long maintained strong economic ties with Panama. Panama serves as an important financial and commercial crossroads in the Western Hemisphere and has one of the most open economies in the region. U.S. firms play an important role in Panama's largely service-based economy. Bilateral trade between the United States and Panama totaled \$1.7 billion in 2002 with U.S. exports accounting for \$1.4 billion of that amount. On average, nearly half of Panama's total imports come from the United States. In addition, the stock of U.S. foreign direct investment in Panama is approximately \$25 billion in sectors such as finance, maritime, and energy. Plans for future expansion of the Panama Canal will create many new government procurement opportunities.

Over the last year, Panama has made significant progress in resolving outstanding bilateral investment issues. Panama is also a reliable partner in the region, working closely with us to advance our common values and objectives in the World Trade Organization (WTO) and Free Trade Area of the Americas (FTAA) negotiations. In the course of negotiating an FTA, we intend to work closely with Panama to support the U.S. goals of achieving hemispheric economic integration and dismantling trade barriers around the world.

An FTA with Panama will respond to direction from the Congress in the Caribbean Basin Trade Partnership Act to conclude comprehensive, mutually advantageous trade agreements with Caribbean Basin countries. An FTA will also help foster economic growth and create higher paying jobs in the United States by further reducing and eliminating remaining barriers to trade and investment between Panama and the United States. Additionally, it will enable us to address

specific barriers to U.S. goods and services in Panama, including high tariffs on certain agricultural goods, restrictive licensing practices, and inadequate levels of regulatory transparency.

We look forward to working off the Chile FTA, Singapore FTA, and, soon, the Central America FTA as models for this agreement. As Panama serves as a major transshipment point, an FTA will afford the United States an important opportunity to incorporate the innovative provisions on customs enforcement of intellectual property and textiles that are part of the U.S. agreement with Singapore.

An FTA with Panama will contribute to our efforts to strengthen democracy and support for fundamental values throughout the region, such as respect for internationally recognized worker rights and the elimination of the worst forms of child labor, greater respect for the rule of law, sustainable development, and accountable institutions of governance. Strong anti-corruption and transparency requirements in the FTA will help combat corruption.

Panama is an important link in the Administration's strategy of opening markets in the Hemisphere through competitive liberalization. An FTA with Panama will complement the free trade agreement we expect to conclude shortly with five of Panama's Central American neighbors, which may be broadened next year to include the Dominican Republic, a key trading partner in the Caribbean. Negotiations with Panama will also serve to boost the incentive for governments throughout the Hemisphere to complete the FTAA.

Panama is a valued partner in the achievement of other important U.S. interests as well, including the fight against narcotrafficking, terrorism, and money laundering. Indeed, an FTA will serve to strengthen not only economic ties but also political and security ones.

Initial consultations with the Congressional Oversight Group (COG) and other Members of Congress regarding the FTA negotiations with Panama have been positive, and we believe that there is broad bipartisan interest in such an agreement. The Administration will continue to consult closely with the Congress, including the COG, throughout the negotiation process.

Our specific objectives for negotiations with Panama are as follows:

· *Trade in Goods:*

- Seek to eliminate tariffs and other duties and charges on trade between Panama and the United States on the broadest possible basis, subject to reasonable adjustment periods for import-sensitive products.
- Seek to eliminate non-tariff barriers in Panama to U.S. exports, including licensing barriers on agricultural products, restrictive administration of tariff-rate

quotas, unjustified trade restrictions that affect new U.S. technologies, and other trade restrictive measures that U.S. exporters identify.

- Seek to eliminate government practices that adversely affect U.S. exports of perishable or cyclical agricultural products, while improving U.S. import relief mechanisms as appropriate.
- Pursue a mechanism with Panama that will support achieving the U.S. objective in the WTO negotiations of eliminating all export subsidies on agricultural products, while maintaining the right to provide *bona fide* food aid and preserving U.S. agricultural market development and export credit programs.
- Pursue fully reciprocal access to Panama's market for U.S. textile and apparel products.

· *Customs Matters, Rules of Origin, and Enforcement Cooperation:*

- Seek rules to require that Panama's customs operations are conducted with transparency, efficiency, and predictability, and that customs laws, regulations, decisions, and rulings are not applied in a manner that would create unwarranted procedural obstacles to international trade.
- Seek rules of origin, procedures for applying these rules, and provisions to address circumvention matters that will ensure that preferential duty rates under an FTA with Panama apply only to goods eligible to receive such treatment, without creating unnecessary obstacles to trade.
- Seek terms for cooperative efforts with Panama regarding enforcement of customs and related issues, including trade in textiles and apparel.

· *Sanitary and Phytosanitary (SPS) Measures:*

- Seek to have Panama reaffirm its WTO commitments on SPS measures and eliminate any unjustified SPS restrictions.
- Seek to strengthen collaboration with Panama in implementing the WTO SPS Agreement and to enhance cooperation with Panama in relevant international bodies on developing international SPS standards, guidelines, and recommendations.

· *Technical Barriers to Trade (TBT):*

- Seek to have Panama reaffirm its WTO TBT commitments and eliminate any unjustified TBT measures.
- Seek to strengthen collaboration with Panama in implementing the WTO TBT Agreement and create a procedure for exchanging information with Panama on TBT-related issues.

· *Intellectual Property Rights:*

- Seek to establish standards to be applied in Panama that build on the foundations established in the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights and other international intellectual property agreements, such as the World Intellectual Property Organization (WIPO) Copyright Treaty, the WIPO Performances and Phonograms Treaty, and the Patent Cooperation Treaty.
- In areas such as patent protection and protection of undisclosed information, seek to have Panama apply levels of protection and practices more in line with U.S. law and practices, including appropriate flexibility.
- Seek to strengthen Panama's procedures to enforce intellectual property rights, such as by ensuring that Panamanian authorities seize suspected pirated and counterfeit goods, equipment used to make such goods or to transmit pirated goods, and documentary evidence.
- Seek to strengthen measures in Panama that provide for compensation of right holders for infringements of intellectual property rights and to provide for criminal penalties under Panamanian law that are sufficient to have a deterrent effect on piracy and counterfeiting.

· *Trade in Services:*

- Pursue disciplines to address discriminatory and other barriers to trade in Panama's services markets. Pursue a comprehensive approach to market access, including any necessary improvements in access to the telecommunications, financial services, energy, express delivery, and other sectors.
- Seek improved transparency and predictability of Panamanian regulatory procedures,

specialized disciplines for financial services, and additional disciplines for telecommunication services and other sectors as necessary.

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· *Investment:*

- Seek to establish rules that reduce or eliminate artificial or trade-distorting barriers to U.S. investment in Panama, while ensuring that Panamanian investors in the United States are not accorded greater substantive rights with respect to investment protections than U.S. investors in the United States, and to secure for U.S. investors in Panama important rights comparable to those that would be available under U.S. legal principles and practice.
- Seek to ensure that U.S. investors receive treatment as favorable as that accorded to domestic or other foreign investors in Panama and to address unjustified barriers to the establishment and operation of U.S. investments in Panama.
- Provide procedures to resolve disputes between U.S. investors and the government of Panama that are in keeping with the trade promotion authority goals of being expeditious, fair, and transparent.

· *Electronic Commerce:*

- Seek to affirm that Panama will allow U.S. goods and services to be delivered electronically to its market and to ensure that Panama does not apply customs duties to digital products or unjustifiably discriminate among products delivered electronically.

· *Government Procurement:*

- Seek to establish rules requiring government procurement procedures and practices in Panama that are fair, transparent, and predictable for suppliers of U.S. goods and services that seek to do business with Panama.
- Seek to expand access for U.S. goods and services to Panama's government procurement market.

· *Transparency/Anti-Corruption/Regulatory Reform:*

- Seek to make Panama's administration of its trade regime more transparent, and pursue rules that will permit timely and meaningful public comment before Panama adopts trade-related measures.

- Seek to ensure that Panama applies high standards prohibiting corrupt practices affecting international trade and enforces such prohibitions.

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· *Trade Remedies:*

- Provide a safeguard mechanism during the transition period to allow a temporary revocation of tariff preferences if increased imports from Panama are a substantial cause of serious injury, or threat of serious injury, to the domestic industry.
- Make no changes to U.S. antidumping and countervailing duty laws.

· *Environment:*

- Seek to promote trade and environment policies that are mutually supportive.
- Seek an appropriate commitment by Panama to effectively enforce its environmental laws.
- Establish that Panama will strive to ensure that it will not, as an encouragement for trade or investment, weaken or reduce the protections provided for in its environmental laws.
- Help Panama strengthen its capacity to protect the environment through the promotion of sustainable development, such as by establishing consultative mechanisms.

· *Labor, including Child Labor:*

- Seek an appropriate commitment by Panama to effectively enforce its labor laws.
- Establish that Panama will strive to ensure that it will not, as an encouragement for trade or investment, weaken or reduce the protections provided for in its labor laws.
- Based upon review and analysis of Panama's labor law and practices, establish procedures for consultations and cooperative activities with Panama to strengthen its capacity to promote respect for core labor standards, including compliance with ILO Convention 182 on the worst forms of child labor.

· *State-to-State Dispute Settlement:*

- Encourage the early identification and settlement of disputes through consultation.

- Seek to establish fair, transparent, timely, and effective procedures to settle disputes arising under the agreement.

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In addition, the FTA with Panama will take into account other legitimate U.S. objectives including, but not limited to, the protection of health, safety, environment, essential security, and consumer interests.

We are committed to concluding these negotiations with timely and substantive results for U.S. workers, consumers, businesses, and farmers, and will pursue these specific objectives, keeping in mind the overall and principal U.S. negotiating objectives and priorities that the Congress has identified. We look forward to continuing to work with the Congress as negotiations with Panama begin, and we commit to work with you as we bring them to a successful conclusion.

Sincerely,

Robert B. Zoellick